



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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**INTERNAL CONTROL REVIEW OF
SOCIAL SERVICES AGENCY
CONTRACT ADMINISTRATION &
CASH DISBURSEMENTS PROCESSES**

For the Period
May 1, 2004 through April 30, 2005

AUDIT NUMBER: 2531

REPORT DATE: October 5, 2005

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Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Michael Goodwin, CPA, CIA
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**Internal Control Review of Social Services Agency
Contract Administration and Cash Disbursements Processes**

**For the Period
May 1, 2004 through April 30, 2005**

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Transmittal Letter

Audit No. 2531

October 5, 2005

TO: Ingrid Harita, Director
Social Services Agency

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Internal Control Review of Social Services Agency
Contract Administration and Cash Disbursements Processes

We have completed an Internal Control Review of the Social Services Agency contract administration and cash disbursements processes for the period May 1, 2004 through April 30, 2005. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

Please note, beginning in January 2005, we implemented a more structured and rigorous follow-up audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our first Follow-up Audit will now begin no later than six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-up Audit will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. Your department should complete this template as our audit recommendations are implemented. When we perform our Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

As the Director of the Internal Audit Department, I now make a monthly audit status presentation to the BOS where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our follow-up audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this audit will be included in a future summary to the BOS.

As always, the Internal Audit Department is available to partner with you so that you can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your agency to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final audit report.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

William Mahoney, Deputy CEO/Government & Public Services

Jess Carbajal, Director of Agency Administration/SSA

Mary Engram, Contract Services Manager, SSA/Privatization Services

Darlene J. Bloom, Clerk of the Board of Supervisors

Foreman, Grand Jury



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INTERNAL AUDITOR'S REPORT

Audit No. 2531

October 5, 2005

Ingrid Harita, Director
Social Services Agency
888 N. Main Street
Santa Ana, CA 92701

We have completed a review of internal controls over contract administration and cash disbursements processes of the Social Services Agency (SSA) for the period May 1, 2004 through April 30, 2005. Our audit was made in accordance with professional standards established by the Institute of Internal Auditors.

Management of the SSA is responsible for establishing and maintaining a system of internal controls. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. County of Orange Accounting Manual (AM) No. S-2 – *Internal Control Systems* prescribes the policies and standards the departments/agencies should follow in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, the SSA's continuing emphasis on control activities and self-assessment of control risks.

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Accordingly, our review performed for the limited purpose described above would not necessarily disclose all weaknesses in the Social Services Agency's operating procedures, accounting practices, and compliance with County policy.

Based upon our audit, **no material weaknesses or significant issues were identified.** However, we noted opportunities where management should further enhance its internal controls, which are detailed in the Observations, Recommendations and Management Responses section of this report.

Note: the items contained in this audit report are considered as **"Control Findings."** See *Attachment A* for a description of audit report items.

While our report indicates the specific areas of human services contracts where our observations are directly applicable, **Social Services Agency should implement the recommendations in other contract processes they find as applicable to them.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a “lessons learned” opportunity to guide them in proactively self-assessing other similar operations or processes.

We appreciate the courtesy and cooperation extended to us by the personnel of SSA/Privatization Services during our review. As we identified issues, personnel were responsive in taking corrective actions.

If we can be of further assistance, please contact me directly; Eli Littner, Deputy Director at (714) 834-5899; Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,



Peter Hughes, Ph.D., CPA

Director, Internal Audit

Distribution Pursuant to Audit Oversight Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

William Mahoney, Deputy CEO/Government & Public Services

Jess Carbajal, Director of Agency Administration

Mary Engram, Contract Services Manager, SSA/Privatization Services

Darlene J. Bloom, Clerk of the Board of Supervisors

Foreman, Grand Jury

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted an internal control review of contract administration and cash disbursements processes in the Social Services Agency. The objectives of our audit were to determine whether internal controls are in place and operating to ensure:

1. Cash disbursements for contracted services are processed completely, accurately, timely and in accordance with management's authorization.
2. Cash disbursements for contracted services have adequate documentation to justify payments made to the contractors.
3. Fiscal monitoring/site review process confirms contractor expenditures are appropriately supported and allowable in accordance with contractual requirements.
4. Any ineffective or inefficient processes coming to our attention are identified.

BACKGROUND

The mission of Social Services Agency (SSA) is to deliver quality social services that are accessible and responsive to the community, encourage personal responsibility, strengthen individuals, preserve families, protect vulnerable adults and children, and recognize cultural diversity. SSA is comprised of four major divisions: Administration, Adult Services and Assistance Programs, Children and Family Services, and Family Self-Sufficiency. These divisions provide the core businesses of the Agency, which include self-sufficiency, protective services, independent living, financial assistance, health care access, employment services, and family stability. To help achieve its objectives, SSA contracts with private sector, non-profit, and faith-based organizations that employ staff to provide various social services. These are known as human services contracts.

SSA/Privatization Services is responsible for establishing and monitoring human services contracts, which can be either financial or non-financial. Financial contracts are agreements with financial obligations to purchase services from contractors with expertise that matches client needs and program objectives. There are three types of financial contracts:

- **Fixed Fee.** SSA pays contractor for actual services provided at a pre-determined rate (generally by hourly increments/sessions/or client) up to the maximum contract obligation.
- **Cost Reimbursement.** SSA pays contractor for actual and allowable business expenses as indicated in the program budget up to the maximum contract obligation.
- **Cost Applied.** Agreements between departments/agencies used for interdepartmental billing purposes.

Non-financial contracts are Memorandums of Understanding (MOUs) or Memorandum of Procedures (MOPs) that have no financial obligations and serve to provide guidelines for establishing and maintaining the agreements with public and private organizations to meet the service needs of SSA clients. As of March 31, 2005, SSA had approximately **234 financial and 87 non-financial human services contracts with the funding amount totaling \$123.4 million.** The term for these contracts range from one year to three years with individual maximum contract obligations ranging from \$500 to \$28.5 million.



SSA/Privatization Services reviews and authorizes the invoices/claims of human services contracts that we reviewed in this audit (see Scope paragraph below). Auditor-Controller/Claims & Disbursing processes the authorized payments received from SSA and issues the checks to contract providers. SSA/Privatization Services performs detailed reviews and fiscal monitoring of claims pertaining to fixed fee contracts when authorizing payments. For some cost reimbursement contracts, they contract with an external CPA firm to perform on-site fiscal monitoring to audit program expenses, as these expenditures are self-reported by contractors.

SCOPE

Our audit was limited to controls and processes over contract administration and cash disbursements for financial human services contracts for the period May 1, 2004 through April 30, 2005. Our methodology included inquiry, auditor observation, and examination and testing of pertinent documentation related to fixed fee and cost reimbursement contracts to evaluate SSA/Privatization Services' review and monitoring processes to justify contractor payments. Our review did not include contract development and bidding processes, human services contracts pertaining to Group Homes and Foster Care Agencies, contracts with County departments/agencies (cost-applied) and other government entities, and non-financial contracts/agreements.

CONCLUSION

No material weaknesses or significant issues were identified. Based upon the objectives of our audit, we found the following:

1. Controls and processes are in place to ensure cash disbursements for contracted services are processed completely, accurately, timely and in accordance with management's authorization. We note in our report where enhancements can be made in the reconciliation process to ensure payments have been processed and properly posted. (See Report Item entitled Reconciliations).
2. Controls and processes are in place to ensure cash disbursements for contracted services have adequate supporting documentation to justify payments made to the contractors. For the fixed fee contracts reviewed in this audit, effective processes were in place for reviewing documentation that included matching SSA's client referrals and the client's receipt of services to the provider invoices. We note in our report where enhancements can be made in processing payments in the Family Self-Sufficiency Division's Welfare-To-Work Program (See Report Item entitled Welfare-To-Work Programs).
3. Fiscal monitoring/site review processes are in place to confirm contractor expenditures are appropriately supported and allowable in accordance with contractual requirements. SSA/Privatization Services performed utilization reviews of certain contractors or utilized external CPA firms to audit program expenditures, primarily with the cost reimbursement contracts. We note where the fiscal monitoring/site review process should be enhanced for Wraparound Programs and Individual Provider Programs (see corresponding Report Items).
4. We noted areas where effectiveness and efficiency can be enhanced in the contract administration and payment processes. These are detailed in our report section entitled Effectiveness and Efficiency Issues.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Wraparound Program

The Wraparound Program, administered by SSA/Children and Family Services, is a statewide pilot project designed to maintain children in their birth family homes, avoiding or reducing stays in out-of-home care placements. As of March 31, 2005, SSA contracted with four providers to provide wraparound services. These contracts are cost reimbursement agreements with one-year terms and maximum contract obligations ranging from approximately \$578,000 to \$1.1 million. SSA pays the contractors for actual and allowable expenses up to the maximum contract amount.

Finding No. 1 - Fiscal Monitoring

During our review, we noted that Contract Administrators review invoices to ensure amounts do not exceed the budget per line item. However, fiscal monitoring is not being performed regularly to ensure contract expenditures are appropriately supported and allowable according to contractual requirements. We were informed that due to limited staff size, SSA was unable to perform compliance reviews since September 2004.

Recommendation No. 1

Because this is a pilot program, we recommend SSA evaluate the currently available resources to ensure a compliance review, including a fiscal review, be performed on a regular basis.

Social Services Agency Response:

SSA concurs with this recommendation. Contract language is included in all four Wraparound provider contracts, which state "CONTRACTOR shall employ a licensed certified public accountant, who shall prepare and file with ADMINISTRATOR, an annual Wraparound Orange County specific audit of related expenditures during the term of this Agreement..." On August 29, 2005, SSA requested that the four Wraparound contractors be added to the Invitation for Bid (IFB) for Audit Services. This will provide for independently conducted annual audits for all four Contractors to ensure contract expenditures are appropriately supported and allowable according to contractual requirements.

Finding No. 2 - Supervisory Review

Compliance Audit Review Forms are prepared by Contract Administrators and are discussed verbally with the Team Leader. There is no written documentation (e.g. initials and date) to evidence that a supervisory review was conducted. Supervisory review helps to ensure propriety, consistency, and reasonableness of work performed.

Recommendation No. 2

SSA ensure supervisory reviews of Wraparound services compliance audits are documented in writing by the reviewer.

Social Services Agency Response:

SSA concurs with this recommendation. The procedures will be revised to indicate that the appropriate Contract Services supervisor must review and initial compliance audit reports prepared by the assigned Contract Administrator. In addition, an audit tool will be developed to document compliance.



Finding No. 3 - Follow-Ups on Compliance Audits

Written procedures have not been established to define responsibilities for both Wraparound program and contract administrator staff to follow-up on findings noted in the compliance audits and fiscal reviews. Follow-up reviews ensure corrective actions have been taken and issues have been properly resolved.

Recommendation No. 3

SSA establish a written procedure to ensure all findings noted in compliance audits and fiscal reviews are followed up and resolved.

Social Services Agency Response:

SSA concurs with this recommendation. A new Contract Administrator has been hired with an effective date September 16, 2005. One of the assigned responsibilities will be to finalize the draft procedures and develop an audit tool for following-up on and resolving findings noted in the compliance audits and fiscal reviews.

Individual Provider Program

The Individual Provider Program (IPP) is a support service for child abuse victims and needy families that are referred by SSA/Children and Family Services. As of March 31, 2005, there are about sixty (60) licensed therapists and counselors in IPP who provide child abuse and/or neglect, prevention/intervention counseling services. The IPP contracts are three-year, fixed-fee agreements, where SSA agrees to pay the providers for actual services rendered at a pre-determined hourly rate. Although there is no maximum obligation for individual IPP contracts, SSA allocates a total amount to be expended each fiscal year. For FY 04/05, the amount was \$983,330.

Finding No. 4 - Utilization Reviews

SSA/Privatization Services has a written procedure, *Utilization Reviews (URs)*, which provides guidelines for monitoring contractor performance and compliance with service requirements. The procedure states “As a guideline for frequency of URs, agencies will be scheduled for two URs in a contract year to ensure appropriate monitoring and provision of technical support.” We noted that SSA/Privatization Services did not perform URs in accordance with established procedures, citing staffing resource issues.

Because only one Contract Administrator administers this program, SSA/Privatization Services now plans to conduct one UR for each provider during the three-year contract term, currently from October 1, 2003 through September 30, 2006. However, our review disclosed that fifteen (15) URs have been performed and fifty (50) providers are pending to receive a UR for the remaining contract term, which may not be possible to complete with existing resources. It should be noted that a compensating control exists to ensure the propriety of payments made to IPP providers based on a requirement for supporting documentation showing SSA referrals to be matched with provider services actually rendered.

Recommendation No. 4

SSA/Privatization Services should evaluate its current staffing resources to accomplish the Utilization Reviews and meet the agency’s objectives. In addition, written procedures should be updated to reflect the current practice and expectations of conducting Utilization Reviews.



Social Services Agency Response:

SSA concurs with this recommendation. The current Individual Provider procedure will be revised to reflect that a percentage/random sampling of Utilization Reviews will be conducted each year. In addition, Contract Administrators will copy their supervisor on correspondence to document review.

Finding No. 5 - Supervisory Review

Supervisory review of Utilization Reviews by the Team Leader is not documented to evidence a review was conducted.

Recommendation No. 5

SSA ensure supervisory reviews of Utilization Reviews are documented in writing by the reviewer.

Social Services Agency Response:

SSA concurs with this recommendation. The procedures will be revised to indicate that the appropriate Contract Services supervisor must review and initial the Utilization Review prepared by the assigned Contract Administrator.

Finding No. 6 - Follow-Ups on Utilization Reviews

Findings noted during Utilization Reviews are not being followed up until the next review, which may be three years later, to ensure that issues are being resolved. Staffing resources were cited as the cause.

Recommendation No. 6

SSA establish a procedure to ensure all findings noted in Utilization Reviews are followed up and resolved timely.

Social Services Agency Response:

SSA concurs with this recommendation. As indicated in the response to Finding No. 4, the Utilization Review procedure will be revised to reflect that a percentage/random sampling of Utilization Reviews will be conducted each year to ensure for more timely follow-up.

Welfare-To-Work Program

Welfare-To-Work (WTW) is a mandated program under CalWORKs, which require parents or caretakers in families on welfare, unless exempt, to meet work requirements by participating in WTW activities. SSA/Family Self Sufficiency (FSS), whose mission is to enable low-income individuals and families on welfare to become self-sufficient through employment and cash assistance, administers this program. FSS refers WTW participants to a contractor (Foster Assessment Center & Treatment Service) who provides job readiness assessment services. The \$280,000 contract for this service is a fixed fee agreement, where SSA agrees to pay for actual services rendered at a pre-determined rate up to the maximum obligation.

Finding No. 7 - Supporting Documentation to Validate Claims

A procedure is not in place requiring referral notices to be forwarded to SSA/Privatization Services to validate the services provided were for authorized participants. Our fieldwork disclosed that assessment services totaling \$38,045 were not validated against any referral notices from FSS. We noted that assessment services provided for Children and Family Services program have this process in place and we believe this is an effective control when processing contractor payments.



Recommendation No. 7

SSA establish a policy requiring referral notices to be verified to contractor invoices when processing payments for fixed fee agreements.

Social Services Agency Response:

SSA concurs with this recommendation. Procedures have been set up with the Foster Assessment Center and Testing Service to send a copy of the referral for each CalWORKs assessment with their monthly billing. For each monthly invoice, the Contract Administrator will verify that there is a referral for each CalWORKs assessment billed on the invoice. Any CalWORKs assessments billed that do not have a corresponding referral will be disallowed.

Reconciliations

SSA/Privatization Services processes and authorizes contract payments and the Auditor-Controller Office issues the checks and posts the payment to County records. SSA/Privatization Services performs reconciliations to ensure payments are processed and recorded properly.

Finding No. 8 - Reconciliation of Job Codes

Federal and/or State money fund several of SSA's programs. SSA uses job codes to capture program and administrative costs related to specific funding sources. Contract payments are allocated to various job codes as they are funded by multiple sources. SSA submits reimbursement claims to the funding agencies based on the total expenditures posted to each job code; therefore, proper posting to the job code is critical for submitting an accurate reimbursement claim.

We were informed that due to limited staff and vacancies, SSA/Privatization Services does not reconcile contract payments to the corresponding job code posted to the General Ledger. Our testing disclosed one payment totaling \$24,430 that was properly posted to the General Ledger account. However, \$1,320 of the total amount was incorrectly posted to a job code. It should be noted that a reconciliation was performed at the General Ledger account level; however, the error in job coding was not detected.

Recommendation No. 8

SSA evaluate the need to reconcile contract payments to the corresponding job codes, and if determined necessary, ensure the reconciliations are performed.

Social Services Agency Response:

SSA concurs with this recommendation. A procedure will be implemented and training provided to pull a report from WEBERMI to reconcile contract payments to the corresponding job codes.

Finding No. 9 - Reconciliation to the General Ledger

We noted that contract payments for Olive Crest Treatment Center (Wraparound Service) and Child Guidance Center, Inc. (Children and Family Services Program) were not consistently reconciled to the General Ledger. Also, contract payments for Long Beach Genetics Testing Center and Individual Provider Program (Children and Family Services Program) were not reconciled to the General Ledger to ensure payments were processed and posted correctly. Staff vacancy was cited for not performing the reconciliations.

Recommendation No. 9

SSA ensure contract payments are reconciled to the General Ledger. If staffing levels do not permit this to be done, a process should be established to periodically reconcile contract payments.



Social Services Agency Response:

SSA concurs with this recommendation. A procedure will be implemented and training provided to pull a report from WEBERMI to reconcile contract payments to the General Ledger.

Effectiveness and Efficiency Issues

One of our audit objectives is to identify areas where effectiveness and efficiencies can be enhanced. Our audit noted the following areas that have been discussed with management and, in some instances, corrective actions have been initiated. These are presented for your consideration and response and are not considered as formal recommendations.

Utilization Review Forms

Children & Family Services (CFS) uses a standard Utilization Review form when conducting reviews of IPP and other CFS programs. Because this form is used for two different programs, the questions are not specific for each program. As a result, the Contract Administrator for IPP always has to modify the form with different questions for each case reviewed. Currently, there are over 60 IPP providers and there is only one Contract Administrator to conduct utilization reviews for each provider. Customizing the Utilization Review form for each program's specific needs will eliminate the need to modify the form each time.

Social Services Agency Response:

SSA concurs with this recommendation. Staff is currently working on customizing the IPP review form to the IPP Program.

Processing of Contractor Invoices

1. SSA/Privatization Services processes and authorizes contractor invoices for payment. In performing these duties, they will inform contractors of any over billing or disallowed claims. We were informed if a contractor has under billed the County (claimed less than the actual services rendered), they do not inform the contractor, citing that contractors are responsible for ensuring the accuracy of their claims.
2. When processing claims, SSA/Privatization Services requires several documents: an invoice, a Receipt for Services form with the client's signature, and an Assessment and Treatment Plan/Program Report showing provider services. Often times, there are discrepancies on these documents (e.g. service date, service code or mathematical errors). We were informed that any claims with discrepancies are returned to the provider for corrections. As a result, it doubles the work as the claim is being reviewed multiple times to ensure accuracy; whereas the process can be more efficient if SSA/Privatization Services staff is authorized to correct some of the non-financial clerical errors based on a documented phone inquiry with the provider.

One option to address the above issues is to designate a dollar threshold, which if exceeded, would require SSA/Privatization Services to inform the provider of any under billings and billing clarifications.

Social Services Agency Response:

SSA appreciates this suggestion. However, it should be noted that the Contract Administrators currently conduct training for contractors on submitting invoices for payment; provide assistance on reimbursement for services beyond the scope of work; modify invoices upon concurrence; and work with the contractor's bookkeeping staff to resolve billing issues.



Linkage of CUM File

Contract Administrators use a CUM file that contains spreadsheets for tracking expenditures of funds by job codes. All Contract Services Teams are required to utilize CUM file spreadsheets, such as the CUM sheet and Invoice Processing Sheet when processing contractor invoices. The Family Self-Sufficient Team has a linked CUM file and written procedures that provide guidelines in linking the spreadsheets. This linking technique resolves the problem of extensive, redundant data entry and the occurrence of inconsistent reports when corrections and revisions are made. We noted that the Children and Family Services (CFS) and Family and Community Together (FaCT) programs have not implemented this linking technique. As a result, when processing invoices for CFS and FaCT programs, the same data is entered multiple times.

Social Services Agency Response:

SSA concurs with this recommendation. Staff is currently working on developing the linking techniques for the CFS and FaCT programs. Training is tentatively scheduled for October 2005.

Processing IPP Invoices for Family Self-Sufficiency

On occasion, social workers may require providers to attend meetings on short notice (e.g. Family Decision Group Meeting), and that written approval from social workers is not available before the meeting. Without proper documentation, SSA/Privatization Services may disallow the claim. As a result, additional phone calls and e-mails between Privatization Services, the provider; and program staff may be required to authenticate a claim. The disbursement process can be more efficient if the social workers submit the appropriate authorizing documents at the time of processing the payment.

Social Services Agency Response:

SSA concurs with this recommendation and will continue to coordinate with program staff to obtain the appropriate authorizing documents to process payment.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we classify audit report items into three distinct categories:

Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

Significant Issues:

Audit findings or a combination of Control Findings that represent a deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

Control Findings:

Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.





**County of Orange
SOCIAL SERVICES AGENCY
SOCIAL SERVICES ADMINISTRATION**

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DIRECTOR

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CHIEF DEPUTY DIRECTOR

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September 20, 2005

Peter Hughes, Ph.D., CPA
Director, Internal Audit
400 Civic Center Drive West
Santa Ana, CA 92701

Subject: Response to Internal Control Review of Social Services Agency Contract
Administration and Cash Disbursements

On July 27, 2005, the Director of Social Services Agency (SSA) received an email which contained the Internal Control Review results of SSA Contract Administration and Cash Disbursements covering the period from May 1, 2004 through April 30, 2005. We appreciate your acknowledgement that "no material weaknesses were identified" and welcome the opportunity to further enhance the internal controls in Contract Services. The following provides a response to your recommendations for addressing review findings.

WRAPAROUND PROGRAMS

Finding No. 1 – Fiscal Monitoring

During our review, we noted that Contract Administrations review invoices to ensure amounts do not exceed the budget per line item. However, fiscal monitoring is not being performed regularly to ensure contract expenditures are appropriately supported and allowable according to contractual requirements. We were informed that due to limited staff size, SSA was unable to perform compliance reviews since September 2004.

Recommendation No. 1

Because this is a pilot program, we recommend SSA evaluate the currently available resources to ensure compliance review, including fiscal review, be performed on a regular basis.

Social Services Agency Response to Recommendation No. 1

SSA concurs with this recommendation. Contract language is included in all four Wraparound provider contracts, which state "CONTRACTOR shall employ a licensed certified public accountant, who shall prepare and file with ADMINISTRATOR, an annual Wraparound Orange County specific audit of related expenditures during the term of this Agreement..." On August 29, 2005, SSA requested that the four Wraparound contractors be added to the Invitation for Bid (IFB) for Audit Services. This will provide for independently conducted annual audits for all four Contractors to ensure contract expenditures are appropriately supported and allowable according to contractual requirements.



Peter Hughes
September 22, 2005
Page 2 of 7

Finding No. 2 – Supervisory Review

Compliance Audit Review Forms are prepared by Contract Administrators and are discussed verbally with the Team Leader. There is no written documentation (e.g. initials and date) to evidence that supervisory review was conducted. Supervisory review helps to ensure propriety, consistency, and reasonableness of work performed.

Recommendation No. 2

SSA ensure supervisory reviews of Wraparound services compliance audits are documented in writing by the reviewer.

Social Services Agency Response to Recommendation No. 2

SSA concurs with this recommendation. The procedures will be revised to indicate that the appropriate Contract Services supervisor must review and initial compliance audit reports prepared by the assigned Contract Administrator. In addition, an audit tool will be developed to document compliance.

Finding No. 3 – Follow-Ups on Compliance Audits

Written procedures have not been established to define responsibilities for both Wraparound program and contract administrator staff to follow up on findings noted in the compliance audits and fiscal reviews. Follow-up reviews ensure corrective actions have been taken and issues have been properly resolved.

Recommendation No. 3

SSA establish a written procedure to ensure all findings noted in compliance audits and fiscal reviews are followed up and resolved.

Social Services Agency Response to Recommendation No. 3

SSA concurs with this recommendation. A new Contract Administrator has been hired with an effective date September 16, 2005. One of the assigned responsibilities will be to finalize the draft procedures and develop an audit tool for following-up on and resolving findings noted in the compliance audits and fiscal reviews.

INDIVIDUAL PROVIDER PROGRAMS

Finding No. 4 – Utilization Reviews

SSA/Privatization Services has a written procedure, Utilization Reviews (URs), which provides guidelines for monitoring contractor performance and compliance with service requirements. The procedure states "As a guideline for frequency of URs, agencies will be scheduled for two URs in a contract year to ensure appropriate monitoring and provisions of technical support." We noted that SSA/Privatization Services did not perform URs in accordance with established procedures, citing staffing resource issues.



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Because only one Contract Administrator administers this program, SSA/Privatization Services now plans to conduct one UR for each provider during the three-year contract term, currently from October 1, 2003 through September 30, 2006. However, our review disclosed that fifteen (15) URs have been performed and fifty (50) providers are pending to receive a UR for the remaining contract term, which may not be possible to complete with existing resources. It should be noted that a compensating control exists to ensure the propriety of payments made to Individual Provider Program (IPP) providers based on a requirement for supporting documentation showing SSA referrals to be matched with provider services actually rendered.

Recommendation No. 4

SSA/Privatization Services should evaluate its current staffing resources to accomplish Utilization Reviews and meet the agency's objectives. In addition, written procedures should be updated to reflect the current practice and expectations of conducting Utilization Reviews.

Social Services Agency Response to Recommendation No. 4

SSA concurs with this recommendation. The current Individual Provider procedure will be revised to reflect that a percentage/random sampling of Utilization Reviews will be conducted each year. In addition, Contract Administrators will copy their supervisor on correspondence to document review.

Finding No. 5 – Supervisory Review

Supervisory review of Utilization Reviews by the Team Leader is not documented to evidence a review was conducted.

Recommendation No. 5

SSA ensure supervisory reviews of Utilization Reviews are documented in writing by the reviewer.

Social Services Agency Response to Recommendation No. 5

SSA concurs with this recommendation. The procedures will be revised to indicate that the appropriate Contract Services supervisor must review and initial the Utilization Review prepared by the assigned Contract Administrator.

Finding No. 6 - Follow-Ups on Utilization Reviews

Findings noted during Utilization Reviews are not being followed up until the next review, which may be three years later, to ensure that issues are being resolved. Staffing resources were cited as the cause.

Recommendation No. 6

SSA establish a procedure to ensure all findings noted in Utilization Reviews are followed up and resolved timely.



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Social Services Agency Response to Recommendation No. 6

SSA concurs with this recommendation. As indicated in the response to Finding No. 4, the Utilization Review procedure will be revised to reflect that a percentage/random sampling of Utilization Reviews will be conducted each year to ensure for more timely follow-up.

Finding No. 7 – Supporting Documentation to Validate Claims

A procedure is not in place requiring referral notices to be forwarded to SSA/Privatization Services to validate the services provided were for authorized participants. Our fieldwork disclosed that assessment services totaling \$38,045 were not validated against any referral notices from FSS. We noted that assessment services provided for Children and Family Services program have this process in place and we believe this is an effective control when processing contractor payments.

Recommendation No. 7

SSA establish a policy requiring referral notices to be verified to contractor invoices when processing payments for fixed fee agreements.

Social Services Agency Response to Recommendation No. 7

SSA concurs with this recommendation. Procedures have been set up with the Foster Assessment Center and Testing Service to send a copy of the referral for each CalWORKs assessment with their monthly billing. For each monthly invoice, the Contract Administrator will verify that there is a referral for each CalWORKs assessment billed on the invoice. Any CalWORKs assessments billed that do not have a corresponding referral will be disallowed.

RECONCILIATION

Finding No. 8 – Reconciliation of Job Codes

Federal and/or State money fund several of SSA's programs. SSA uses job codes to capture program and administrative costs related to specific funding sources. Contract payments are allocated to various job codes as they are funded by multiple sources. SSA submits reimbursement claims to the funding agencies based on the total expenditures posted to each job code; therefore, proper posting to the job code is critical for submitting an accurate reimbursement claim.

We were informed that due to limited staff and vacancies, SSA/Privatization Services does not reconcile contract payments to the corresponding job code posted to the General Ledger. Our testing disclosed one payment totaling \$24,430 that was properly posted to the General Ledger account. However, \$1,320 of the total amount was incorrectly posted to a job code. It should be noted that a reconciliation was performed at the General Ledger account level, however, the error in job coding was not detected.



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Recommendation No. 8

SSA evaluate the need to reconcile contract payments to the corresponding job codes, and if determined necessary, ensure the reconciliations are performed.

Social Services Agency Response to Recommendation No. 8

SSA concurs with this recommendation. A procedure will be implemented and training provided to pull a report from WEBERMI to reconcile contract payments to the corresponding job codes.

Finding No. 9 – Reconciliation to the General Ledger

We noted that contract payment for Olive Crest Treatment Center (Wraparound Services) and Child Guidance Center, Inc. (Children and Family Services Program) were not consistently reconciled to the General Ledger. Also, contract payments for Long Beach Genetics Testing Center and Individual Provider Program (Children and Family Services Program) were not reconciled to the General Ledger to ensure payments were processed and posted correctly. Staff vacancy was cited for not performing the reconciliations.

Recommendation No. 9

SSA ensure contract payments are reconciled to the General Ledger. If staffing levels do not permit this to be done on a regular basis, a process should be established to periodically reconcile contract payments.

Social Services Agency Response to Recommendation No. 9

SSA concurs with this recommendation. A procedure will be implemented and training provided to pull a report from WEBERMI to reconcile contract payments to the General Ledger.

EFFECTIVENESS AND EFFICIENCY ISSUES

Utilization Review Forms

Children and Family Services (CFS) uses a standard Utilization Review Form when conducting reviews of IPP and other CFS programs. Because this form is used for two different programs, the questions are not specific for each program. As a result, the Contract Administrator for IPP always has to modify the form with different questions for each case reviewed. Currently, there are over 60 IPP providers and there is only one Contract Administrator to conduct utilization reviews for each provider. Customizing the Utilization Review form for each program's specific needs will eliminate the need to modify the form each time.

Social Services Agency Response

SSA concurs with this recommendation. Staff is currently working on customizing the IPP review form to the IPP Program.



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Processing Contractor Invoices

1. SSA/Privatization Services processes and authorizes contractor invoices for payment. In performing these duties, they will inform contractors of any over billing or disallowed claims. We were informed if a contractor has under billed the County (claimed less than the actual services rendered), they do not inform the contractor, citing that contractors are responsible for ensuring the accuracy of their claims.
2. When processing claims, SSA/Privatization Services requires several documents: an invoice, a Receipt for Services form with the client's signature, and an Assessment and Treatment Plan/Program Report showing provider services. Often times, there are discrepancies on these documents (e.g. service date, service code or mathematical errors). We were informed that any claims with discrepancies are returned to the provider for corrections. As a result, it doubles the work as the claim is being reviewed multiple times to ensure accuracy; whereas the process can be more efficient if SSA/Privatization Services staff is authorized to correct some of the non-financial clerical errors based on a documented phone inquiry with the provider.

One option to address the above issue is to designate a dollar threshold, which if exceeded, would require SSA/Privatization Services to inform the provider of any under billings and billings clarifications.

Social Services Agency Response

SSA appreciates this suggestion. However, it should be noted that the Contract Administrators currently conduct training for contractors on submitting invoices for payment; provide assistance on reimbursement for services beyond the scope of work; modify invoices upon concurrence; and work with the contractor's bookkeeping staff to resolve billing issues.

Linkages of CUM File

Contract Administrators use a CUM file that contains spreadsheets for tracking expenditures of funds by job codes. All Contract Services Teams are required to utilize CUM file spreadsheets such as the CUM sheet and Invoice Processing Sheet when processing contractor invoices. The Family Self-Sufficiency Team has a linked CUM file and written procedures that provide guidelines in linking spreadsheets. This linking technique resolves the problem of extensive, redundant data entry and the occurrence of inconsistent reports when corrections and revision are made. We noted that the Children and Family Services (CFS) and Family and Community Together (FaCT) programs have not implemented this linking technique. As a result, when processing invoices for CFS and FaCT programs, the same data is entered multiple times.

Social Services Agency Response

SSA concurs with this recommendation. Staff is currently working on developing the linking techniques for the CFS and FaCT programs. Training is tentatively scheduled for October 2005.



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Processing IPP Invoices for Family Self-Sufficiency

On occasion, social workers may require providers to attend meetings on short notice (e.g. Family Decision Group Meeting), and that written approval for social workers is not available before the meeting. Without proper documentation, SSA Privatization Services may disallow the claim. As a result, additional phone calls and emails between Privatization Services, the provider, and program staff may be required to authenticate a claim. The disbursement process can be more efficient if the social workers submit the appropriate authorizing documents at the time of processing the payment.

Social Services Agency Response

SSA concurs with this recommendation and will continue to coordinate with program staff to obtain the appropriate authorizing documents to process payment.

If you have any questions, please call me or Jess A. Carbajal at 714-541-7795.

Sincerely,

A handwritten signature in black ink, appearing to read "Ingrid Harita", followed by the initials "JH.".

Ingrid Harita
Director
Social Services Agency